



# NATIONAL BANK OF CANADA

Head Office: 500, Place d'Armes, Montréal, Québec H2Y 2W3

## QUARTERLY REPORT TO SHAREHOLDERS

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FOR THE PERIOD ENDED APRIL 30, 1980

### DATA PROCESSING AT THE NATIONAL BANK

If an institution is to operate efficiently and economically, increase the quality of its services to customers and rapidly develop new products, it must, these days more than ever, rely on sophisticated data processing technology.

The National Bank of Canada is currently consolidating the data processing plans which essentially had the same objectives. A major stage of the plan established in 1976 was realized early in April 1980 when the data processing departments were installed in the new Centre on Viger Street.

Constructed with a view to maximizing efficiency of service and minimizing operating costs, the Data Processing Centre also offers personnel a functional and stimulating environment. The Centre has already proved to be a success, in every respect.

#### The New Centre

The Data Processing Centre construction project was approved by the Bank in November 1976 and was subsequently assigned to P.G.L. Architects.

Although some changes had to be made to the interior layout, further to the announcement of the merger, the Centre was ready on schedule and at a total cost lower than that originally budgeted.

The new Data Processing Centre has many advantages, one of which is its location. The building occupies the block formed by Sanguinet, de la Gauchetière, Ste-Élizabeth and Viger streets in Montréal — close to the business district, downtown, expressways and a metro station.

With a total surface area of 240,000 sq. ft. (22,300 m<sup>2</sup>), the Centre is made up of 4 stories of between 36,000 and 38,000 sq. ft. each (3,350 and 3,520 m<sup>2</sup>). A large number of operations are thus effectively grouped together on the same floor. The difference in floor space between one story and another is caused by cantilevered walls and a system of architectural relief which give the building a dynamic profile.

Complementing the advantageous location and the effective grouping of activities on the various floors is a high-quality layout. Wide bays light up the inside of the building. Care was taken to reduce noise levels to a minimum. Special areas were set up for receiving and dispatching. The efficient circulation of documents and cheques was organized to guarantee rapid processing and minimize risk of loss. Finally, since electronics play a key role, all the mechanical and electrical systems are the most modern and the most secure.

The 900-or-so employees in this building spend their working hours in an agreeable atmosphere. They have a cafeteria and lounge at their disposal as well as a nursery which can at present take some thirty of the personnel's children. In short, the emphasis is on efficiency and the quality of the environment.

#### Update on the Computerization Process

In standardizing the data processing master plans, the Bank has retained its main objectives:

- substantial improvement in customer service,
- reduction in operating expenses.

To reach these objectives, we must make use of our advanced technology, flexible electronic components and qualified personnel. In this way, we can:

- facilitate and accelerate the processing of documents by reducing manual operations;
- make available to management a greater volume of precise information on operations so that well-informed decisions can be taken;
- develop systems to meet the needs of internal users;
- establish a "customer information file" (CIF);
- maintain high technological standards, thereby ensuring the Bank's position vis-à-vis the competition.

In recent years, the installation of hardware and software to facilitate the realization of these objectives was made possible through large investments. The Data Processing Centre will gradually become the support centre for all the Bank's operations — 600 points of sale are currently on-line and 650 are linked to the Centre for current accounts and all chequing accounts. The on-line system currently supports some 1,300 terminals, processing approximately 800,000 transactions each day. Several points of sale have been able to introduce modular terminals with which the Bank intends to gradually equip its entire network. It is forecast that within a year and a half, 85% to 90% of the points of sale will be able to use these new work stations which were selected for the following main features: functional design to facilitate use by branch personnel and flexibility allowing the economical addition of more units and service products.

Most service products offered by the Bank to its customers are now computerized. At the international level, foreign exchange and deposits, international payments and correspondent accounts are all automated.

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## REPORT TO SHAREHOLDERS

At the end of its second quarter, on April 30, 1980, the after-tax balance of revenue of the National Bank of Canada amounted to \$ 4,300,000, or 21 cents a share, compared with \$548,000, or 3 cents a share, at the end of the previous quarter.

A better profit margin in Canada and abroad, together with stable operating expenses, contributed to this improvement.

The increase in the profit margin in Canada stemmed both from a better balance between the assets and liabilities mix and the standardization of the interest calculation methods of the two merged banks.

For the six months ended April 30, 1980, the after-tax balance of revenue stood at \$4,848,000, or 24 cents a share, as against \$18,949,000, or 94 cents a share, for the corresponding period in 1979. The factors present in the first quarter continued to affect second quarter results.

As at April 30, 1980, the Bank's assets rose to \$ 15,859,717,000, a growth of 14.1% over last year. The loans total increased by 17.5%, to reach \$10,838,260,000. Showing an increase of 15.9%, the deposit total amounted to \$14,850,025,000 at the end of this first half-year.

Despite high interest rates, the Bank continued to sell fixed-rate assets and investments to subsidiaries which were able to match maturities between assets and liabilities.

At the end of the second quarter, the number of temporary and regular Bank employees dropped to 14,758, compared with 15,077 at the end of the first quarter and 15,258 at the beginning of the financial year. During this quarter, 21 offices — branches or agencies — were closed as a result of mergers affecting 44 points of sale. Merger plans concerning 84 branches, limited service branches and agencies, were approved during the same period.

In general, the implementation of structures and policies resulting from the merger, and aimed at increased efficiency, proceeded more rapidly than scheduled. It still seems that, towards the end of this year, the effects of the merger will have a marked impact on our financial statements. The rapid drop in interest rates since the end of April now encourages the belief that this will appear somewhat sooner than expected.

Michel Bélanger  
President and Chief Executive Officer



Statement of Revenue and Expenses (in thousands) (unaudited)	For the three months ended April 30		For the six months ended April 30	
	1980	1979	1980	1979
<b>Revenue</b>				
Income from loans	\$466,850	\$313,484	\$ 884,382	\$614,254
Income from securities	43,772	38,309	88,087	73,942
Other operating revenue	23,672	20,705	47,948	41,754
<b>Total revenue</b>	<b>534,294</b>	<b>372,498</b>	<b>1,020,417</b>	<b>729,950</b>
<b>Expenses</b>				
Interest on deposits and bank debentures	424,798	271,432	810,208	522,431
Salaries, pension contributions and other staff benefits	61,809	56,647	123,733	112,233
Property expenses, including depreciation	17,933	14,412	33,913	27,947
Other operating expenses, including provision for losses on loans based on five-year average loss experience	34,744	25,318	70,455	49,586
<b>Total expenses</b>	<b>539,284</b>	<b>367,809</b>	<b>1,038,309</b>	<b>712,197</b>
<b>Balance of revenue</b>	<b>(4,990)</b>	<b>4,689</b>	<b>(17,892)</b>	<b>17,753</b>
Provision for income taxes	(9,290)	(3,270)	(22,740)	(1,196)
<b>Balance of revenue after provision for income taxes (Note 1)</b>	<b>\$ 4,300</b>	<b>\$ 7,959</b>	<b>\$ 4,848</b>	<b>\$ 18,949</b>
Per share (Note 2)	21¢	40¢	24¢	94¢
<b>Dividends declared during the period</b>	<b>\$ 6,033</b>	<b>\$ 5,849</b>	<b>\$ 12,066</b>	<b>\$ 11,689</b>
Per share	30¢	29¢	60¢	58¢

Balance Sheet Highlights as at April 30 (in millions)	1980		1979	% increase
<b>Total assets</b>	<b>\$ 15,860</b>	<b>\$</b>	13,906	14.1
<b>Total loans</b>	<b>10,838</b>		9,226	17.5
<b>Total deposits</b>	<b>14,850</b>		12,817	15.9
<b>Deposits in Canadian dollars</b>	<b>10,422</b>		9,217	13.1
<b>Deposits in foreign currencies</b>	<b>4,428</b>		3,600	23.0

Note 1: The amount of the transfer to appropriations for losses can only be determined at the end of the financial year and no provision has been made in the interim statements.

Note 2: Calculated on the weighted monthly average of equivalent fully paid shares:

Note 3: The financial statements include the assets and liabilities, and revenue and expenses, of National Bank of Canada (International) Limited, Bahamas, Banque Canadienne Nationale (Bahamas) Ltd, Natcan (Asia) Ltd, Banque Nationale du Canada (France) S.A.

(shares)	20,109,646	20,098,980	20,109,646	20,084,749
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Determined to develop its corporate sector, the National Bank now provides the following services: computerized payroll, direct deposits, pre-authorized payments and account reconciliation as well as electronic funds transfer (EFT) which will increasingly improve services in the future.

A growing number of internal financial specialists now rely on computers for analysis of financial statements and loan applications.

On May 1, with the support of the data processing sector, the Bank initiated a new accounting system resulting from the standardization of the two former systems.

The coming months will see mortgage loans totally computerized and our subsidiary, Mirabel Factors Corporation Ltd., will be linked on-line with the central computer. The interbranch service is on the program for medium-term implementation. By 1981, data processing systems will be implemented, first for collection, and then for the human resources sector. A study is under way on a microfiche system for all points of sale as well as an on-line data capture system which will result in substantially reduced document circulation and control. A central customer information file is currently being set up, again with a view to improving service to our customers.

Test results are positive regarding the installation of automated teller machines linked to computers. Automation of office work is planned through the installation of a network of word processing machines which will allow secretarial personnel more time to devote to other responsibilities, thereby developing and optimizing their initiative.

With these major stages in computerization completed, it is now essential that the National Bank consolidate its position by integrating all its present systems. Overall network consolidation activities make such integration both more urgent and complex — a delicate and extremely important task since the quality of service must be maintained while this integration is carried out. This will indeed be a real challenge for the data processing sector in the next two years.

In addition to its two centres in Montréal, the National bank has data processing centres in Toronto, Québec City and Saint John. It is currently studying the possibility of installing other centres in Canada.

Keenly aware of the necessity of continually updating their knowledge of new techniques, data processing personnel have taken every advantage of appropriate training programs. With this kind of dedication, we feel confident that the success of our consolidation efforts is assured.

## **PROPOSED AMALGAMATION**

On April 24, 1980, the National Bank of Canada announced that it had concluded an agreement in principle, subject to approval by the government authorities concerned, for the amalgamation of Banque Nationale du Canada (France) and Banque de l'Union Occidentale, whose head office is located in Paris.

The National Bank already held 20% of the capital stock of the Banque de l'Union Occidentale, whose principal stockholder is Banque Worms (51%).

Once concluded, the agreement will give the National Bank of Canada 40% of the capital stock of the Banque de l'Union Occidentale, which will continue the franc operations of BNC (France). The Banque de l'Union Occidentale will take on some of the personnel of Banque Nationale du Canada (France) and will be located in the Avenue George V building in Paris.

The National Bank of Canada's European representative office will also be housed in the Banque de l'Union Occidentale building, and its franc operations will be carried out in cooperation with the Banque de l'Union Occidentale. Management of the National Bank of Canada's international loans syndication abroad will soon be transferred to London, as planned at the time the London branch was opened in 1977.

The National Bank of Canada's presence will, as a result, be greatly enhanced both as regards efficiency and profitability, and will serve to further develop, from Paris, the contacts already established in Europe, as well as on the international loan market in London.

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## **RETIREMENT OF MR. GERMAIN PERREAULT AS AN EMPLOYEE OF THE BANK**

Mr. Germain Perreault, Chairman of the Board of Directors and Chairman of the Executive Committee, retired as an employee of the Bank on April 1, 1980, after forty-one years with the Bank.

Mr. Perreault continues to be member of the Bank's Board of Directors and retains his position as Chairman of the Board and Chairman of the Executive Committee.